



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

February 4, 2010

Kathryn Hayes
Training Manager
The Clorox Company
1221 Broadway Street
Oakland, CA 94612

Dear Ms. Hayes:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0148 for the period September 6, 2004 through September 5, 2006.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by

Stephen Runkle
Audit Manager

Enclosures

THE CLOROX COMPANY

Agreement No. ET05-0148

Final Audit Report

For The Period

September 6, 2004 through September 5, 2006

Report Published February 4, 2010

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AUDITOR'S REPORT

Summary

We performed an audit of The Clorox Company, Agreement No. ET05-0148, for the period September 6, 2004 through September 5, 2006. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period July 14, 2008 through July 18, 2008.

The Employment Training Panel (ETP) paid the Contractor a total of \$1,440,846.50. Our audit supported that \$1,435,971.50 is allowable. The balance of \$4,875 is disallowed and must be returned to ETP. The disallowed costs resulted from four trainees who were not employed in an eligible occupation, three trainees who had unsupported class/lab training hours, and one trainee who did not meet retention period requirements. We also noted administrative findings for one trainee who did not meet retrainee eligibility requirements and for the inaccurate reporting of trainee wage rates.

AUDITOR'S REPORT (continued)

Background

The Clorox Company (Clorox) was established in 1913 at its headquarters site in Oakland. The company is well known for its household laundry and cleaning supplies, but also produces many other household products and packaged goods. At its facilities in Oakland, Los Angeles, Fairfield, and Pleasanton, the company employs approximately 3,000 Californians.

By nature, the production, sales, and distribution of consumer goods require Clorox to do business in an extremely volatile marketplace. To remain competitive, the company constantly needs to cut costs and improve services and products. Entering this Agreement, it was critical for Clorox to become more customer-focused by building on efforts of the previous two years to convert to a high-performance workplace. Therefore, this training project sought to provide Clorox employees an understanding of how to work in a new process-oriented environment by improving the skills of some experienced workers and advancing the skills of others, while providing new employee training as well. It also provided for leadership training for managers and supervisors.

This Agreement allowed Clorox to receive a maximum reimbursement of \$1,519,050 for retraining 2,050 employees. During the Agreement term, the Contractor placed 1,634 trainees and was reimbursed \$1,440,846.50 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of The Clorox Company. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that The Clorox Company complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time for 90

AUDITOR'S REPORT (continued)

consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported 1,435,971.50 of the \$1,440,846.50 paid to the Contractor under this Agreement was allowable. The balance of \$4,875 was not earned according to the terms of the Agreement and must be returned to ETP.
Views of Responsible Officials	<p>The audit findings were discussed with Kathryn Hayes, Training Manager, at an exit conference held on July 18, 2008 and via e-mail February 1 – 4, 2010. Ms. Hayes agreed to bypass issuance of the draft report and proceed to the final audit report.</p> <p>The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning July 19, 2008, through the issue date of this final audit report. The interest waiver (adjustment) was \$479.86, which was deducted from the total accrued interest.</p>
Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
Records	Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence

AUDITOR'S REPORT (continued)

directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Stephen Runkle
Audit Manager

Fieldwork Completion Date: July 18, 2008

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05-0148 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

THE CLOROX COMPANY

AGREEMENT NO. ET05-0148

FOR THE PERIOD

SEPTEMBER 6, 2004 THROUGH SEPTEMBER 5, 2006

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>1,440,846.50</u>	
Costs Disallowed:		
Ineligible Occupations	4,024.00	Finding No. 1
Unsupported Class/Lab Training Hours	520.00	Finding No. 2
Post-Training Retention Requirements Not Met	331.00	Finding No. 3
Retrainee Eligibility Not Met	-	Finding No. 4
Inaccurate Reporting	-	Finding No. 5
Total Costs Disallowed	<u>4,875.00</u>	
Training Costs Allowed	<u>1,435,971.50</u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Ineligible Trainee Occupations The Clorox Company (Clorox) claimed reimbursement for four trainees who were not employed in occupations specified in the Agreement. Therefore, we have disallowed \$4,024 in training costs for these trainees (\$1,630 + \$1,287 + \$376 + \$731).

Exhibit A, VII. A. of the Agreement between Clorox and ETP states, “Employment for each trainee shall be in the occupations listed in [the Agreement]...” The occupations identified in the Agreement for Job No. 1 did not include Vice President or Senior Counsel.

Paragraph 5i, page 4 of the Agreement states, “No senior level managers or executive staff who set company policy are included in ETP-funded training under this Agreement.”

The following table shows the job title during retention, as provided by Clorox, for the four trainees.

Trainee No.	Job No.	Job Title
1	1	Vice President, Prod Supply Innovation
2	1	Vice President, Corp Procurement/Contract Mfg.
3	1	Vice President, Sales Planning
5	1	Senior Corporate Counsel

Recommendation Clorox must return \$4,024 to ETP. In the future, the Contractor should ensure all trainees are employed in the occupations specified in the Agreement and/or were not employed in senior level or executive positions, prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Clorox training records did not support that three trainees
Unsupported completed the number of class/lab training hours reported to ETP.
Class/Lab Training Therefore, we disallowed \$520 (40 hours x \$13 per hour).
Hours

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training.

Paragraph 2 (b) of the Agreement states: “Reimbursement for class/lab training for all trainees will be based on the total actual number of training hours completed...”

Clorox reported to ETP that Trainee No. 4 received 16 hours of training per day on 2/1, 2/2, and 2/3/2005, for a total of 48 hours over the course of those three consecutive days. The ETP on-line tracking system reflected this amount of hours based on two separate entries of 8 hours per day for each separate date equaling 16 hours per day. However, the three *original* class/lab rosters maintained by Clorox for those dates only supported that 8 hours per day was delivered to this trainee on those dates. The *original* rosters had preprinted dates of 2/1, 2/2, and 2/3/2005 and been hand marked with an internal tracking number (205), which corresponds to roster number entered in the ETP on-line tracking system for only one of the separate entries for 2/1, 2/, and 2/3/2005.

In addition, for Trainee No. 4, ETP Auditor also reviewed *photo copies* of three rosters that strongly resemble the original rosters described above, with the exception that the preprinted dates, as recorded on the original rosters, appear to have been altered by hand to 2/21, 2/22, and 2/23/2005 by the addition of a second digit to the dates. The photo copied rosters had also been hand marked with a different internal tracking number (327), which corresponds to the roster number entered in the ETP on-line tracking system for the other separate entries for 2/1, 2/2 and 2/3/2005. No hours were reported to ETP for the changed dates (2/21, 2/22, and 2/23/2005) that appear on roster number 327. Thus, we disallowed 24 of the 48 training hours paid by ETP for Trainee No. 4, as noted above, which were not supported by original, unaltered rosters.

Clorox reported to ETP that Trainee No. 8 received 8 hours of training on 4/20/2005. However, the class/lab roster maintained by Clorox did not contain the trainee's initials for that date. The roster showed the trainee's attendance lined out for that date. Thus, we disallowed the 8 hours that were not supported by the roster.

FINDINGS AND RECOMMENDATIONS (continued)

Clorox reported to ETP that Trainee No. 9 received 8 hours of training on 10/26/2005. However, Trainee No. 10 was recorded as both a trainee and as an instructor on the roster dated 10/26/2005 that reflected this 8 hours of training for which ETP reimbursed the Contractor. Clorox cannot receive reimbursement for employees acting in the capacity of instructors. Thus, we disallowed 8 hours for this trainee.

Recommendation Clorox must return \$520 to ETP. In the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Clorox payroll records show Clorox received reimbursement for the training costs of one trainee who did not meet post-training retention requirements. Therefore, we disallowed \$331 in training costs claimed for this trainee.

Post-Training Retention Requirement Not Met

Exhibit A, paragraph VII. A. of the Agreement states, “Each trainee must be employed full-time, at least 35 hours per week, with a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training.”

Clorox reported that Trainee No. 7 completed a post-training retention period from May 5, 2006 to August 3, 2006. However, Clorox payroll information indicates that Trainee No. 7 terminated employment on June 30, 2006. Thus, Trainee No. 7 was retained for only 56 days of the 90 days required by the Agreement. The Contractor did not provide documentation that indicated she voluntarily terminated employment. Furthermore, Employment Development Department (EDD) base wage information does not support any subsequent employment in California within the term of the Agreement.

Recommendation Clorox must return \$331 to ETP. In the future, the Contractor should ensure trainees meet post-training retention requirements prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – Employment information provided by Clorox shows one trainee was
Retrainee ineligible to receive training. This trainee did not meet employment
Eligibility Not Met requirements prior to the start date of training. As a result, the
Contractor did not comply with the terms of the Agreement.

Exhibit A, paragraph III of the Agreement requires that trainees be employed full-time by the Contractor or a participating employer for at least 90 days before the trainee begins training. Otherwise, to be eligible a trainee must have been employed at least 20 hours per week for at least 90 days by an eligible employer during the 180-day period preceding the trainee's hire date with the current employer.

Clorox records indicate that Trainee No. 6 was hired on May 16, 2005 and began training on June 21, 2005, less than 90 days prior to the start of training. Employment Development Department base wage information shows she was not employed full-time for at least 20 hours per week for at least 90 of the 180 days preceding the hire date.

Recommendation In the future, Clorox should comply with all terms specified in an Agreement with ETP. Failure to comply with the terms of an Agreement may result in repayment of unearned funds, plus applicable interest, to ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 5 – Trainee hourly wage rates reported by Clorox on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate
Reporting

Paragraph 2 (d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, paragraph VII.A. of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on payroll documents provided by Clorox for 27 initial random sample trainees for whom we requested payroll records to test minimum wage requirements. Trainee wage rates reported by Clorox varied by 5 percent or more from actual wage rates for 27 of the 27 trainees (100 percent).

Recommendation In the future, Clorox should ensure all trainee wage rate data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006